

# EXECUTIVE RESOURCES, LLC

## ("EXEC")

Health Care Issues

Summer, 2009

### HEALTH CARE, THE ENVIRONMENT AND BOND COVENANT REQUIREMENTS

#### Has Your Hospital Tripped or is in Danger of Tripping Your Bond Covenants?

The review of a Hospital's operations due to default of its bond covenants is designed to address a broad range of issues necessary to assess the overall financial position of the Hospital with the objective of determining if the Hospital has the necessary leadership, financial expertise, financial resources and the operational systems in place to meet its bond obligations.

The review is intended to cover all major aspects of the organizational and operational areas of the Hospital to determine the specific reasons for the bond default and will recommend a set of actions that should be taken by the Board of Trustees and Management to bring the Hospital into compliance at the earliest practical time.

At the start of the engagement the consultant, if necessary, will meet with representatives of the Health Care Facilities Financing Authority and/or the bond Trustee to ensure that the planned work and scope is consistent with expectations.

The consultant will also meet with key Hospital executives to explain and clarify the objectives of the engagement.

As a result of the recent financial crisis and ensuing recession that has continually plagued the Nation and the business environment overall, many health care facilities and systems have found themselves caught in this financial quagmire which has been exacerbated by the lack of access to capital and reductions in patient volumes and associated revenues. Many facilities now find themselves in the position of reviewing their audited financial statements for fiscal year 2008 and attempting to reconcile the financial results with the requirements included in their revenue bond offering statements. The typical hospital bond issuance requires that the hospital maintain certain financial ratios, such as:

- Debt Coverage Ratios
- Days Cash on Hand
- Operating Margins

A health care facility that fails to meet the required ratios as set forth in their bond documents will be considered noncompliant with its bond covenant and loan agreement provision. As a result of this, it may be required under the terms of the loan agreement to set up a process to "cure" this non compliance. In most cases the health care facility may be required to engage the services of an independent consulting firm to determine the cause of noncompliance and make recommendations with respect to op-

erational and management issues that will enable the health care facility to be compliant at the earliest practicable time.



Based upon the experience and senior executive positions at hospitals that members of Executive Resources, LLC have gained in the performance of numerous engagements associated with health care facilities non compliance with its bond and loan agreements we have developed an approach that we believe has successfully assisted many facilities in working out their bond compliance issues.

The review of a health facilities operations due to non compliance with its bond covenant and loan agreement is designed to address a broad range of issues necessary to assess the overall financial position of the facility with the objective of determining if the facility has the necessary leadership, financial expertise, financial resources and the operational systems in place to meet its bond obligations.

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## HEALTH CARE, THE ENVIRONMENT AND BOND COVENANT REQUIREMENTS (Continued)

The review is intended to cover all major aspects of the organizational and operational areas of the facility to determine the specific reasons for the non compliance and will recommend a set of actions that should be taken by the Board of Trustees and Management to bring it into compliance at the earliest practical time.

The following specific tasks should be performed in the areas of concentration outlined below:



### Review and Comment on Prior Compliance Plan (If one exists)

Review action plan; and determine if appropriate steps were implemented.

### Assess the Current Status of Managements Initiatives

Evaluate the effectiveness of management's current programs to reduce costs, expand patient volumes and enhance revenues. This review should include any cost reduction initiatives implemented or planned by management, length of stay initiatives, management organization, managed care contracting, Medicare and Medicaid payment issues, including cost reports. Additionally, a review should be performed on all consultant reports, internal studies, and other outside reviews performed to determine the potential for revenue enhancement and/or cost reductions.

### Key Stakeholder Assessment

Conduct interviews with key members of the executive team, physician leadership and the Board of Trustees to gain insight as to their perspective of the issues facing the facility and to gain insight as to their perceptions of the problem and the roots of its causes. The intent of this should be an evaluation of the leadership and management team of the facility to determine their effectiveness.

### Performance Monitoring

Review detailed financial and statistical data for the prior years, as well as, internal monthly financial and statistical statements. The data would include audited financial statements, operating budgets, cash flow projections, capital budgets, managed care contracts, demographic information, physician data and historical debt covenant ratio determinations.

A review should be made to determine if the Board of Trustees and Management understood the impact of their decisions and how effectively they responded to mitigate further erosion of the financial resources of the facility. The review should be conducted to determine if management exercised prudent business decisions in the management of the facilities' operations, including development of business plans, budgets, timely meetings and responsiveness in recognizing financial problems.

### Benchmarking

Establish a "Best Practices" set of medians and means developed from an agreed upon peer/competitor group.

### Revenue Cycle & Reimbursement Review

Assess the billing, third party resolution, cash application, contractual adjustment and collection referral processes to determine potential improvements in revenue and cash flow. Reviews managed care contracts for reasonable rates and identify billing opportunities not included in contracts.



### Other Areas of Review

- Evaluate management's effectiveness in expanding the facility's outpatient services in response to industry trends and managed care initiatives;
- Evaluate the its strategy and success in physician recruitment;

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## HEALTH CARE, THE ENVIRONMENT AND BOND COVENANT REQUIREMENTS (Continued)

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- Review compliance policies and programs, including response to any complaints to determine potential risks;
- Develop and/or analyze market share data for the facility's primary and secondary service areas, including inpatient discharges and same day surgery.
- Review the current complement of services;
- Evaluate the strategic direction with key decision makers;
- Review and evaluate the organizational structure;
- Determine feasibility for hospital to stand alone;
- Disproportionate Share Hospital (DSH) review;
- Coding review; and
- RAC Exposure Review.

It is important to retain a consulting firm with both the experience to perform the review and the expertise to identify the organizational, operational and financial issues that must be resolved to bring the Hospital into compliance.



The consultant must be uniquely qualified to perform the review and have extensive background and experience in hospital operations, financial, managed care, third party reimbursement, and payor issues to understand complex hospital operational problems and to craft viable strategic solutions within acceptable timeframes.

Executive is on the NJHCFFA approved vendor list for workouts. Call us today for assistance with your Bond Default Workout or to prevent the tripping of one of your bond covenants.

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WE'RE ON THE WEB AT

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